

**Economic Research****Sydney**

September 1, 2008

# Australian economic update

## 2Q current account

Australia's current account deficit narrowed significantly in 2Q, owing mainly to an improvement in the goods and services gap. The current account deficit came in at A\$12.8 billion (JPMorgan A\$11.8 billion, consensus A\$11.7 billion), compared to A\$19.8 billion in 1Q. The deficit accounted for 6.2% of GDP in the June quarter, compared to 6.5% in the previous three months.

The goods and services balance came in at a surplus of A\$560 million, a massive improvement on the A\$7.3 billion deficit recorded in 1Q. This big improvement in the trade balance was thanks to soaring exports, up 20% over the quarter owing to a 26% surge in non-rural exports; this we attributed to the steep rise in contract prices for coal and iron ore, Australia's two largest export commodities. Imports were up 3% in 1Q, slowing significantly from 8% in the previous quarter, and indicative of the recent softening evident in domestic demand.

In seasonally adjusted chain volume terms, the goods and services deficit increased A\$57 million. **Net exports are forecast to subtract -0.1 percentage point from 2Q GDP growth.** We do, however, expect that net exports will eventually add to economic growth in 2009, as the currency continues to trend south and solid business investment, particularly in mining, continues to help alleviate the infrastructure bottlenecks that have hampered our export performance.

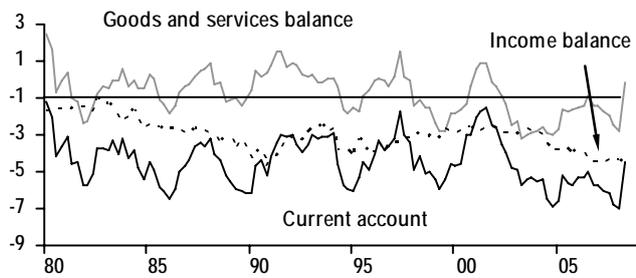
The net income deficit rose 6% to A\$13.3 billion in the June quarter, marking the highest deficit on record. The income deficit accounted for 4.5% of GDP, up from 4.4% in the previous four quarters and indicative of an economy heavily reliant on imported capital. Income debits increased 5% due to an increase in direct investment in Australia (+8%), while credits rose 3%. The net international investment position rose 1% to a net foreign liability of A\$692 billion owing to exchange rate changes, net transactions, and price changes.

The ABS also noted in the current account publication that activities of the Future Fund were identifiable for all relevant periods for the first time in this issue. The stats agency added that a review of the calculation of accrued income on long term debt securities has occurred as part of an ongoing program to improve the quality of the current account income data. The June quarter publication also included the introduction of a number of adjustments to portfolio equity investment abroad to reconcile with CHES holdings of Chess Depository Interests and other securities of non-resident companies.

Furthermore, from the September quarter, there will be major changes to the product classifications of statistics presented in this publication and related time series spreadsheets. We believe that these changes will have a limited impact on the current account result.

Australia: current account deficit

% of GDP



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